



**GAS NATURAL COMMENTS TO ERGEG PUBLIC CONSULTATION REPORT:
GAS REGIONAL INITIATIVE COHERENCE AND CONVERGENCE**

GAS NATURAL would like to thank ERGEG for having the opportunity to give some comments on the Gas Regional Initiatives and in particular on the South one.

GAS NATURAL, a company involved in supply activities in Spain, with ownership unbundling from the TSO, and with subsidiary companies active in France and Italy, has been directly involved in the South Gas Regional Initiative both in the stakeholders meeting and by sending written comments.

GENERAL COMMENTS

ERGEG launched the Gas Regional Initiative on April 2006 as a practical step towards the development of a single competitive market. Its approach was based on voluntary cooperation of the industry, the Member States, the European Commission and other stakeholders.

According to ERGEG, the Gas Regional Initiative is about facilitating practical improvements in gas markets to improve market effectiveness and integration

- Identifying issues – that cause barriers to market integration
- Proposing solutions – that will lead to real and practical improvements
- Implementing plans – ensuring effective delivery of plans

ERGEG would ensure that approaches and solutions adopted across the three regions do not create barriers for market integration and single market.

The priorities identified for the South Gas Regional Initiative were:

- Priority I: Interconnection Capacity
- Priority II: Interoperability
- Priority III: Transparency
- Priority IV: Hubs

Gas Natural considers that the priorities order is relevant and to have solutions in a previous priority before tackling the next one it is necessary.

In our point of view, after more than one year since the GRI started, no clear progress on the priorities has been achieved. At least for the case of the S-GRI, the results are very limited:



- Problems have been identified
- But there is no clear progress; there are no practical or concrete results in the priorities

Regarding the main priority for the SGRI, to increase the interconnection capacity between the Iberian Peninsula and France, no new investment decision has been made.

We consider that difficulties encountered in the S-GRI are not related to a lack of coherence or convergence between the approaches taken in the three regions but to the lack of progress within this region.

Even a perfectly coherent and convergence approach would have no effect in the S-GRI unless the interconnection capacity is increased.

For this reason, we would like to ask ERGEG that, as first step, all the efforts should be concentrated on the priorities that are vital for the integration of regional markets (ie. minimum level of interconnection capacity between regions).



QUESTIONS FOR STAKEHOLDERS

General

- ***Do you agree that there is sufficient consistency in the common priorities that are being looked at across the three regions to ensure that no real barriers are being created for the future integration of the regions? If not, please explain why.***

As mentioned before, we consider that the main difficulties encountered in the South GRI are not related to a lack of coherence or convergence between the approaches taken in the other two regions, but the lack of progress in the main priority of the S-GRI: interconnection capacity, that determines the development of the rest of the priorities (ie. interoperability between markets will not be an issue unless those markets are interconnected)

- ***Given the factors outlined above, do you agree that the issue of coherence and convergence within regions than between regions is more important as a first step in gas? If not, please explain why.***

Convergence and coherence is needed both within regions and between regions in order to reach a real internal energy market.

For example, transit contracts play an important role in the supply of the EU because an important part of the gas consumed in the EU is linked to long term contracts that cross more than one region due to the situation of the natural gas production sites. Therefore, convergence and coherence of the approaches to allow the free flow of gas is needed both within and between the regions.

- ***Do you think there are similarities and/or interactions between the electricity and gas sectors that should specially be taken into account when assessing the coherence and convergence level among regions? Please specify which similarities and/or interactions that should be taken into account.***

Problems might be similar. For example and for the case of France and Spain, there is a lack of interconnection capacity between France and Spain both for electricity and gas.

Interconnection and capacity

- ***Do you think that the approaches being taken across three regions towards interconnection and capacity are sufficiently consistent to avoid creating problems for the integration of the three regions in the future? If not, please give specific examples of what could be done differently?***

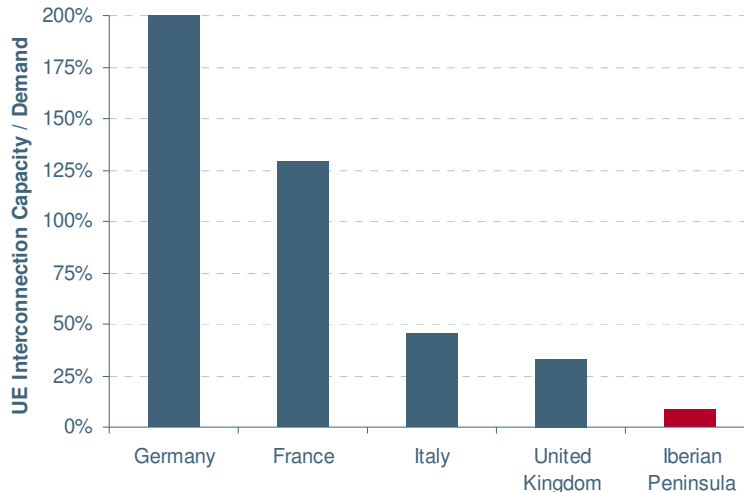
With regard to the interconnection capacity, the starting point between each region varies. Some countries are already well interconnected while others lack interconnection capacity.

In our opinion, the approach taken in the South GRI is not sufficiently consistent as even though it has been identified that there is a serious lack of interconnection capacity, no new



investment decision has been made and we are not confident about developments in the short-term.

We would like to ask ERGEG to monitor closely those regions where there is a lack of interconnection capacity clearly identified, as we believe this situation hinders the integration of markets and undermines the development of competition and security of supply. If progress is not achieved in a reasonable period of time (ie. after one year) then ERGEG should analyse the reasons and if they are motivated.



Those countries with lower interconnection levels should make a bigger effort and decisions on investments should be taken urgently. TSOs must build sufficient interconnection capacity between their transmission infrastructure to satisfy an efficient overall market assessment and gas security of supply criteria, avoiding their investment decisions are biased to the interest of supply affiliates when vertically integrated TSOs

THE SOUTH GAS REGIONAL INITIATIVE

▪ Investments

The need of further investments in interconnection has been identified as priority one for the South Gas Regional Initiative. However and after one year of discussions, new decisions on further investments have not been taken.

Two projects will increase slightly the interconnection capacity between France and the Iberian Peninsula: Guyenne 1 and Larrau A and B.

	FR → ES	ES → FR
Common Value (GWh/d)	18,5	15

These two projects were decided before the regional initiatives started and not as result of this initiative. Guyenne 1, according to a CRE 2005 deliberation, is for the evacuation of



gas from the Fos Cavaou LNG terminal, and a large part of the capacity created will mainly benefit Gaz de France and Total.

Deliberations of the Commission de régulation de l'énergie on the approval of an increased rate of return for the Guyenne trunk pipe reinforcement project . CRE observations.

However, to be eligible for an increased rate, the project must, in addition, make a significant contribution to better market functioning. In the light of this criterion, only 10% of the Fos Cavaou terminal capacity will be open to new entrants and only for short-term reservations. Under these conditions, a large part of the capacity created by the initial phase of Guyenne trunk line development will mainly benefit Gaz de France and Total, which have 90% of the Fos Cavaou terminal utilisation capacities.

The increase in capital costs due to the possible application of an increased rate of return on the whole project would, therefore, be borne by all market players through the tariffs for use of transmission networks, without them benefiting from the capacity created.

*CRE thus considers that the part of this project **corresponding strictly to the need for the evacuation of the gas from the Fos Cavaou terminal will not contribute significantly to better market functioning.***

However, some of the initial phase investments presented by GRTgaz and TIGF correspond to overdimensioning in terms of just the capacities necessary for evacuating gas from the Fos Cavaou terminal: pipeline diameters above those which would have been strictly necessary were chosen and compression capacities were increased to anticipate on the following phases of the project. As a result, new capacity has been created for market players, right from the initial phase.

The corresponding investments, that is €50m for TIGF and €16m for GRTgaz, are eligible for an increased rate of return.

▪ **Capacity**

Apparently, the open subscription period for *Guyenne 1* and *Larrau A and B* will not be launched simultaneously, which implies serious risks for the shippers. A coordinated approach is needed within the region. This example shows that coherence and convergence should start within each region as a first step.

Open seasons are required by the French TSOs and the French Regulator before deciding on investing. However, open seasons are not always applied in France; ie, investments needed in order to evacuate the gas of LNG terminals. This has been the case of *Guyenne 1* which was decided automatically and approved without launching an open season.

We would like to ask for an equivalent approach to interconnections. Both, LNG terminal and an interconnection points are entry points to the French gas system. In both cases, it would be needed to evacuate the gas. We consider that the treatment of all entry points in France should be equal and not discriminatory.



Transparency

- ***Do you think that the approaches being taken across three regions towards transparency are sufficiently consistent to avoid creating problems for the integration of the three regions in the future? If not, please give specific examples of what could be done differently.***

At this moment, we consider that there is sufficient transparency.

- ***Do you think there would there be benefits in rolling out the note on “less than 3” to the other regions? If so, are there any regional differences that should be taken into account?***

In our opinion the “less than 3” rule should not be applied. We consider that what should remain confidential is the number of users of an entry/exit point. If this is the case, we cannot see problems in the information of capacity being released.

Interoperability (including gas balancing)

- ***Do you think that the approaches being taken across the three regions towards interoperability (including balancing) are sufficiently consistent to avoid creating problems for the integration of the three regions in the future? If not, please give specific examples of what could be done differently?***

As mentioned before and at least for the South region, the priorities order is relevant. It is necessary to have solutions in a previous priority before tackling with the next one: interoperability will not be an issue unless the interconnection is developed.

Interoperability problems once they have been identified they should not be a barrier as a solution can be found. On the other hand, physical barriers, like the lack of interconnection, cannot be overcome unless there are new investments. This is the reason why we consider that interoperability should be tackled once decisions on investments have been reached.

- ***Will the development of a regional entry-exit system in the South-South East region lead to any difficulties of convergence with other regions at a later stage? If so, how could these be overcome?***

It should not.

Development of gas hubs

- ***Do you think that the approaches being taken across the three regions towards the development of gas hubs are sufficiently consistent to avoid creating problems for the integration of the three regions in the future? If not, please give specific examples of what could be done differently.***



In some regions the issue of hubs is being discussed when there is not enough interconnection capacity and without TSOs having taken a decision to invest. In this context, with such a clear physical barrier, where the free flow of gas and gas trading cannot take place, the interaction of hubs would not develop.

- *Do you think that the more regional approach to developing hubs in the South-South East region will lead to any difficulties of convergence with other regions at a later stage? If so, how could these be overcome?*

Other issues

- *Would there be benefits in the MoU being rolled out across the other two regions – or are there adequate arrangements already in place? If it was rolled out, would there be any barriers to doing so and how could they be overcome?*